

# Audit

# Report



OFFICE OF THE INSPECTOR GENERAL

DEVELOPMENT OF PROPERTY, PLANT, AND  
EQUIPMENT SYSTEMS WITHIN THE  
DEPARTMENT OF DEFENSE

Report No. 95-034

November 21, 1994

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### **Acronyms**

CIM  
DBOF

Corporate Information Management  
Defense Business Operations Fund



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884



Report No. 95-034

November 21, 1994

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
ASSISTANT SECRETARY OF DEFENSE (COMMAND,  
CONTROL, COMMUNICATIONS, AND  
INTELLIGENCE)**

**SUBJECT: Audit Report on the Development of Property, Plant, and Equipment  
Systems Within the Department of Defense (Project No. 3LD-2023.02)**

### **Introduction**

We are providing this final report for your information and use. During our audit resulting in Inspector General, DoD, Report No. 94-149, "Property, Plant, and Equipment Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993," June 28, 1994, we observed that the Office of the Under Secretary of Defense (Comptroller) formerly the Comptroller of the Department of Defense was developing a standard property, plant, and equipment system; and several other DoD organizations were also developing, modifying, or procuring new property, plant, and equipment financial reporting systems. Therefore, we reviewed those efforts to determine whether they were unnecessarily duplicating the Comptroller's and each others' property accounting systems development.

### **Audit Results**

The audit disclosed that the property, plant, and equipment system development efforts did not unnecessarily duplicate each others' efforts or the development efforts of the Under the Secretary of Defense (Comptroller) (Comptroller, DoD).

### **Objectives**

The objective of the audit was to evaluate the development of property, plant, and equipment systems within DoD. Specifically, we determined whether Defense organizations were duplicating each others' efforts in the development of property, plant, and equipment accounting systems. We also evaluated applicable internal controls.

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## **Scope and Methodology**

We reviewed five DoD organizations' development, major modification, or procurement of property, plant, and equipment accounting systems that came to our attention during the previous audit (Report No. 94-149) to determine whether funds were being spent unnecessarily on those systems. Specifically, for the five organizations, we reviewed development plans, cost estimates, costs incurred to date, and functional requirements documents of property, plant, and equipment systems under development from September 1991 through July 1994. The audit included evaluations of ongoing efforts by the Army's Integrated Logistics System Office, the Defense Commercial Communications Office, the Defense Finance and Accounting Service, the Joint Logistics System Center, and the Office of the Comptroller, DoD.

This economy and efficiency audit was conducted from February through July 1994, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. The audit included such tests of internal controls as were considered necessary. The reliability of computer-processed data was not applicable to the audit. A complete list of organizations visited or contacted during the audit is in Enclosure 1.

## **Internal Controls**

We evaluated internal controls applicable to regulations and procedures that DoD organizations, to include Defense Business Operations Fund (DBOF) funded organizations, used to manage software systems development and to prevent duplication. The audit identified no material internal control weaknesses.

## **Prior Audits and Other Reviews**

No prior audits have been performed relating specifically to the development of property, plant, and equipment accounting systems within DoD since the inception of DBOF in October 1991 and the Corporate Information Management (CIM) initiative in January 1991. However, General Accounting Office reports and congressional testimonies have cited significant deficiencies in current accounting systems and in the development of new systems. The principal reports and testimonies are summarized below.

**Report No. AIMD-94-80.** General Accounting Office Report No. AIMD-94-80 (OSD Case No. 9339-D), "Status of the Defense Business Operations Fund," March 9, 1994, stated that DoD acknowledged the inadequacy of the DBOF financial systems. The complex and long-standing problems of the financial

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systems affect the DoD ability to accurately account for billions of dollars of resources. The report stated that the full achievement of the DBOF objectives was dependent on standardized and modernized finance and accounting systems. The report made no recommendations.

**Testimony T-AFMD-93-6.** General Accounting Office Testimony T-AFMD-93-6 (OSD Case No. 9339-B), "Opportunities to Strengthen Management of the Defense Business Operations Fund," June 16, 1993, stated that the Defense Business Management System was selected without evaluating the system's costs, benefits, and technical risks and without defining all needed features. The testimony recommended that DoD identify the functional requirements for a standard cost accounting system and that DoD go through the proper systems planning and systems evaluation before proceeding with the system's implementation. In response to the testimony, DoD decided to reevaluate the selection of the Defense Business Management System as the DoD standard accounting system.

**Report No. IMTEC-92-77.** General Accounting Office Report No. IMTEC-92-77 (OSD Case No. 9235), "Corporate Information Management Must Overcome Major Problems," September 14, 1992, stated that slow progress towards reengineering business processes was hindering the success of the CIM initiative. The report also stated that DoD did not have a standard method to identify and account for resources for the development of information systems. The report recommended that the Secretary of Defense establish controls over funds for systems development and withhold funds for any new information system development efforts until the efforts are justified by a technical and a cost-benefit analysis. DoD officials generally disagreed with the recommendations, but stated that DoD has finalized its commitment to the use of functional economic analysis to support funding decisions; and it has recognized the need for a single, common software engineering environment for the development of automated information systems.

## **Background**

The Deputy Secretary of Defense approved the CIM initiative in 1989, to help achieve savings targets identified in the Defense Management Review. DoD implemented the CIM initiative to streamline operations and to manage dwindling resources more efficiently. Additionally, DoD established DBOF in 1991 with one of its principal purposes being to reduce support organizations' operating costs through increased efficiencies. DBOF consolidated industrial and stock funds operated by the Military Departments and the Defense Logistics Agency. The consolidation included functional organizations implementing the CIM initiative, such as the Defense Finance and Accounting Service and the Joint Logistics Systems Center. The primary methods of achieving savings for DoD through both the CIM initiative and the establishment of DBOF were the

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development and standardization of improved information systems, to include the finance and accounting systems, and a reduction in the number of redundant information systems.

The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), the DoD senior information management official, is responsible for internal controls over the development of new information management systems. Through the establishment of DBOF, the Comptroller, DoD, is also responsible for the development of CIM systems by DBOF organizations. The Defense Finance and Accounting Service was given primary responsibility for the development of finance and accounting systems.

## Discussion

The property, plant, and equipment system development efforts that we reviewed did not unnecessarily duplicate each others' efforts or the efforts of the Comptroller, DoD.

**Systems Receiving Certification.** In addition to the normal budgetary controls over justifying funds for software systems development, the DoD primary internal control designed to prevent the unnecessary duplication of efforts in developing or modifying automated information systems was initiated in response to Section 8023 of the DoD Appropriations Act of 1994, Public Law 103-139. The Appropriations Act required a certification of need by the senior DoD information resource management official of any information system development or modification with estimated costs of \$2 million or more during FY 1994.

To comply with the DoD Appropriations Act of 1994, the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) issued a memorandum December 8, 1993, requiring the principal staff assistants of the Office of the Secretary of Defense responsible for specific functional areas, such as finance and accounting and logistics, to provide the certification. The principal staff assistants were to certify that the functional requirement for the systems being developed or modified was valid and that the effort did not unnecessarily duplicate the developments of other automated information systems.

Two of the five system developments we reviewed (the Army's Integrated Logistics System Office modification of the Standard Property Book System-Redesign and the Comptroller, DoD, Property Accountability System) were certified in accordance with the process criteria. The certification process ensured that the requirements were valid and that no unnecessary duplication existed in the systems' development efforts. The Army's Standard Property Book System-Redesign was certified as a tactical equipment system because its

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primary function was in the area of equipment requirements for tactical units rather than in the area of property, plant, and equipment financial reporting. The Comptroller, DoD, Property Accountability System was certified as a finance and accounting system.

**Other Systems.** In addition to the two systems that were certified, we reviewed property, plant, and equipment system development efforts by three other DoD organizations that did not require certification, and we identified no unnecessary duplication of efforts. Development and implementation efforts by the Defense Finance and Accounting Service of the Navy Industrial Fund Accounting System and the Joint Logistics Systems Center on a Depot Maintenance Property Accounting System were designed to accomplish several functions, such as overall financial accounting and depot equipment management, as well as property, plant, and equipment accounting. Both developmental efforts were being designed to incorporate the Comptroller, DoD, Property Accountability System as a subsystem to satisfy property, plant, and equipment accounting requirements. The Defense Commercial Communications Office purchased the remaining property accounting system (the Fixed Asset Accounting and Control System) from the General Services Administration schedule of core financial systems. Because the system was purchased in FY 1991, before designation of the Comptroller, DoD, Property Accountability System as the DoD standard migratory system, to meet the critical requirement for accurate property accounting, we did not consider it an unnecessary duplication of development.

## **Summary**

For the systems we reviewed, controls to prevent duplicate developments of property, plant, and equipment accounting systems were adequate. No DoD organizations unnecessarily duplicated each others' efforts. Further, DoD recognizes its long-standing problems with property accounting, and the Comptroller, DoD, development of the Property Accountability System is an attempt to rectify the problems.

## **Management Comments**

We provided a draft of this report to the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) on September 19, 1994. Because the report made no recommendations, no written comments were required of management and none were received. Therefore, we are publishing this memorandum report in final form.

The courtesies and cooperation extended to the audit staff are appreciated. If you have any questions on this report, please contact Mr. Charles F. Hoeger,

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Audit Program Director in our Philadelphia Office, at (215) 737-3881 (DSN 444-3881) or Mr. John K. Issel, Audit Project Manager in our Columbus Office, at (614) 337-8009. Enclosure 2 lists the distribution of this report. A list of audit team members is on the inside back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

Enclosures



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## **Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Office of the Under Secretary of Defense (Comptroller), Washington, DC  
Office of the Assistant Secretary of Defense (Command, Control, Communications,  
and Intelligence), Washington, DC  
Acquisition and Logistics Systems Integration, DoD (Comptroller) Financial Systems  
Division, Columbus, OH

### **Department of the Army**

Systems Integration Management Activity, Chambersburg, PA  
Integrated Logistics System Office, Ft. Lee, VA

### **Department of the Air Force**

Standard Systems Center - Support Systems, Gunter Air Force Base, AL  
Air Force Audit Agency, Wright-Patterson Air Force Base, Dayton, OH

### **Department of the Navy**

Naval Audit Service, Washington, DC

### **Defense Agencies**

Defense Information Systems Agency Headquarters, Washington, DC  
Defense Commercial Communications Office, Scott Air Force Base, IL  
Headquarters, Defense Finance and Accounting Service, Washington, DC  
Defense Finance and Accounting Service, Columbus, OH  
Defense Finance and Accounting Service, Denver, CO  
Defense Finance and Accounting Service, Indianapolis, IN  
Joint Logistics Systems Center, Dayton, OH

### **Non-Defense Federal Organizations**

General Accounting Office, Washington, DC  
General Service Administration, Washington, DC

ENCLOSURE 1

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ENCLOSURE 2  
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U.S. General Accounting Office

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Aeronautics and Space Administration Management Issues

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House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Operations

House Subcommittee on Legislation and National Security, Committee on  
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